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C O N F I D E N T I A L SECTION 01 OF 02 TAIPEI 003663

SIPDIS

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SUBJECT: CHEN SHUI-BIAN VERSUS MA YING-JEOU, AND TAIWAN'S FUTURE

Classified By: ADIR DJKeegan; reason 1.4 (b,d).

1. SUMMARY. Over the next several months President Chen Shui-bian and the Chinese Nationalist Party (KMT) Chairman Ma Ying-jeou will compete to shape Taiwan's future. Each has chosen a strategy, and the victor will be determined by whose party wins two critical elections in December 2005 and March 2008. Taiwan's long-term interests will be considered only if the offer either side a political advantage. Our challenge will be to call clearly and impartially for both sides to be constructive and avoid provocation. END SUMMARY.

2. Looking toward the end of his presidency, President Chen has decided that his strategy, his legacy and the key to the survival of the Democratic Progressive Party (DPP) will be a new Taiwan identity (ren-tong). His repeated provocative pronouncements, including most recently his August 25 call for Taiwan to reject the "One-China myth," are intended to persuade Taiwan independence advocates that he has won acceptance by the people and friends of Taiwan that reunification with China is impossible now or at any time in the future and that Taiwan is, at least psychologically, independent. At the same time, he has sought to retain a veneer, however tenuous, of continuity with the form of the Republic of China in order to claim to Washington and Beijing that he has not crossed China's red-line by declaring de-jure independence. Chen is trying to win sufficiently broad support for this identity that whoever emerges as the DPP candidate for President in 2008 will be obliged to campaign and govern as the champion of Taiwan's independent identity.

3. Chen's major challenge over the intervening months will be to resist allowing increased ties with China that risk compromising Taiwan's independent identity. Since Beijing invited former KMT Chairman Lien Chan to visit China in late April, it has relentlessly urged Taiwan to allow fruit exports, passenger charter flights, and Mainland tourism in Taiwan. Chen has resisted by denigrating the value of these proposals, insisting on government talks or the closest possible equivalent, and warning of dangers and difficulties. Throughout he has insisted, probably accurately, that implementing these cross-Strait linkages could help undermine his campaign for a new independent Taiwan identity. Chen's problem is that Taiwan's prosperity relies on linkages to the Chinese economy. At least half a million people from Taiwan live and work in China (some estimate the real figure could be two million, or 0.8 percent of Taiwan's population). Millions more work in businesses that are now or soon could be dependent on linkages to China. Throughout Taiwan, for example, new hotels and shopping malls are being built with the hope that thousands of Chinese tourists will come, many on direct flights, to fill them.

4. Ma Ying-jeou hopes to offer Taiwan a contrasting vision of clean, reasonable, and effective leadership. After months of reticence and indecision (what we called in one cable Ma's "Achilles spine"), Ma challenged KMT Chairman Lien Chan and the party organization's chosen successor, Legislative Yuan President Wang Jin-pyng, and won election as KMT Chairman with over 70% of the vote. He campaigned by promising to remake the KMT into a cleaner and more youthful party that can challenge President Chen's DPP for the hearts and minds of Taiwan.

5. Immediately after his victory, Ma overcame a series of challenges from Wang and the KMT organization. Wang demanded Ma apologize for suggesting that KMT politics, including Wang's campaign, bought votes through gift-giving and banquets. Ma politely "apologized" but made it clear he stood by his criticisms. Wang organized opposition to Ma at the KMT party convention August 16-19 and, Wang associates tell AIT, is still in no mood to forgive or cooperate with Ma. By the end of the convention, Ma had clearly prevailed, despite some confusion and the election of several Wang loyalists to the KMT Central Standing Committee. At the first meeting of this new Central Standing Committee, August 31, Ma won approval of his first reform - selling off party real estate acquired through the KMT's authoritarian, often brutal, rule.

6. Having won the first battles with the KMT party organization, Ma must reshape the party. He must persuade the party faithful that the KMT offers Taiwan the prospect of

an ethical effective government. He must attract younger voters who abandoned Lien's uninspiring gray KMT for the more youthful DPP. He must persuade the KMT and its "Pan-Blue" allies who control Taiwan's Legislative Yuan to cease simply defeating the DPP government's legislation and begin initiating and passing alternative legislation. (It should be noted that one rationale for President Chen's unrelenting emotional agenda has been his inability to initiate government reforms as long as the Pan-Blue LY refuses to pass any government legislation.) Next, Ma must offer an emotionally satisfying vision of how the KMT represents Taiwan and the ROC even while it opposes, or at least does not support, Taiwan independence. To accomplish this, he must overcome the DPP accusation that the KMT is an "alien" political party that used force to impose itself on Taiwan. Finally, Ma must present a vision of how Taiwan can co-exist with the Mainland in ways that offer practical benefits to the people of Taiwan without giving the DPP an opening to portray Ma as a Mainlander who does not really care about Taiwan.

17. Since Chen won election in 2000, the KMT has focused its efforts on criticizing him personally. Since Ma won election as KMT chairman the DPP has returned the favor. It has clearly concluded, as has almost everyone in Taiwan, that Ma is the presumptive Pan-Blue presidential candidate for 2008. The DPP campaign for the next two and a half years will focus on defeating Ma. The first real test of strength between Ma's KMT and Chen's DPP will be the December 2005 election for Taiwan county magistrates and city mayors. Except for the Taipei and Kaohsiung city mayors, every local leader will be up for election. If either the KMT or DPP exceeds expectations, that will give Ma or his DPP opponent a major edge in the race to 2008.

18. Both the KMT and the DPP are completely focused on winning these two elections. Both remember that President Chen won his second term by less than one-third of one percent. Strategic issues including self-defense, international relations, and economic reform will be pursued only to the extent that they affect the battle for domestic political control.

19. If Ma succeeds in making the KMT into a competitive centrist party, he will also force the DPP to move away from Chen's platform of independent identity to compete for Taiwan's pragmatic center. This could make Taiwan a more cooperative partner for the U.S. in a variety of endeavors. If Ma fails, Chen may feel further emboldened to expand his current campaign, increasing the risks for regional security and U.S. policy.

10. The challenge for the U.S. in the months ahead will be to state both publicly and privately our expectation that Taiwan's leaders be constructive, seek mutually beneficial cross-Strait linkages and avoid provocation without favoring, even inadvertently, the domestic political efforts of either side.

KEEGAN